Opposite
Scale model of the $430 million petrochemical complex being built near Sarnia by Petrosar Limited, a 60% owned subsidiary of Polysar Limited. This facility will be the first world-scale crude oil topping and naphtha-cracking unit in Canada.

Front Cover
Plastics like those used in the front cover design are a major product of Polysar.

Canada Development Corporation Annual Report 1974

Contents

Pour obtenir l'édition française du présent rapport, on est prié d'écrire au Secrétaire,
Corporation de développement du Canada, Suite 1860, 200 rue Granville, Vancouver, Colombie Britannique, V6C 1S4
ou
Suite 2010, 145 ouest rue King, Toronto, Ontario, M5H 1J8.

Corporate Structure

Canada Development Corporation

Developing and maintaining strong Canadian controlled and managed corporations in the private sector.

Assets
$899.6 million

Petrochemicals Assets $444.7 million	**Polysar Limited** 100% Manufacturer of petrochemical products, rubbers, latex and plastics in North America and Europe. Majority participant in new Canadian feedstocks refinery. Computer service bureaus in Canada and United Kingdom.
Mining–Natural Resources Assets $307.9 million	**Texasgulf Inc.** 30.3% A natural resource company with worldwide exploration and development activities. Canada – Base metals, oil and gas, potash, sulphur; United States – Potash, sulphur, phosphates, oil and gas, soda ash (under development); Mexico – Sulphur; Australia – Iron ore.
Health Care Assets $83.2 million	**Connlab Holdings Limited** 100% A company whose principal subsidiaries are engaged in research and production of biological and pharmaceutical products in Canada and Denmark.
Venture Capital Assets $11.4 million	**Venturetek International Limited** 30.6% **Innocan Investments Ltd.** 40.0% **Ventures West Capital Ltd.** 49.0% Investing in a variety of business ventures in the conceptual or early development stage, among which are aerial surveying, oceanography, mobile communications, process control, off-highway vehicles and controlled-environment research chambers.
Pipelines Assets $2.6 million	**Gas Arctic-Northwest Project Study Group** 5.0% Consortium of 20 firms planning construction of natural gas pipeline from Mackenzie Delta and Alaska to Canadian and United States markets at an estimated cost of $7 billion.
Other Assets $49.8 million	Cash and short-term investments held by CDC.

- *Asset values represent book values at December 31, 1974 without deduction of liabilities.*
- *Percentages represent CDC ownership position.*

The Corporation's Objectives

To develop and maintain strong, Canadian controlled and managed corporations in the private sector.
To widen the investment opportunities open to Canadians.
To operate profitably and in the best interests of all the shareholders.

Comparative Highlights

	1974	1973	1972
		(millions of dollars)	
Total assets	**$899.6**	$701.5	$315.6
Shareholders' equity	**548.3**	344.4	200.7
Total revenue	**466.3**	296.7	96.3
Net income	**59.0**	18.7	2.1
Common shares outstanding (weighted average)	**28,758,501**	21,353,401	6,829,732
Net income per common share	**$1.89**	$0.88	$0.31
Return on common shareholders' equity	**12.9%**	6.3%	2.1%

Corporate Policy

To achieve the Corporation's objectives, the Directors have determined that CDC should be an equity investor in strong, profitable enterprises with high growth potential. Directly, or indirectly through subsidiaries, it is CDC policy to put special emphasis on longer-range development and larger projects, particularly those which involve an upgrading of resources, a high technological base, or good potential for building up a Canadian-controlled presence in international markets. Such an international presence is often necessary if Canada's corporations are to scale their operations up to a larger and more efficient size. This process encourages the development of managerial, technical and research talents of superior quality, provides interesting work to skilled and creative Canadians, and assists the country generally to achieve its full potential.

Profit prospects commensurate with the risks involved are overriding policy criteria. CDC is prepared to be patient, recognizing that some of its opportunities will exist because others are unwilling or unable to wait through the years of earnings buildup, but the projects selected should have the prospect of both a high long-term growth rate and a superior rate of return on equity. Because of the potentially large pool of risk capital at CDC's disposal, and because many of the best opportunities are in large-scale projects, there will generally be a bias towards projects of this kind.

CDC does not wish merely to duplicate or to preempt the activities of other Canadian investors, but believes it can play an important part in assembling Canadian strengths and competences to create internationally competitive enterprises, even in areas where investment opportunities open to Canadians have formerly been limited. The Corporation is prepared to play a catalytic role in mobilizing the capital of other investors, both domestic and foreign, in joint ventures which are under Canadian control.

It is generally the intention of the Corporation to have effective control of its underlying companies in order to be able to take the necessary measures to protect and increase the value of its investments. However, it does not intend to participate in the day-to-day management of its subsidiary and affiliated vehicle companies which should have their own skilled staffs and specialized operating personnel. CDC's role, through membership on the Boards and Executive Committees of such companies, is to participate actively in the strategy, development and longer-range planning of such companies so that they will remain innovative and growth-oriented. Attention is also given to the maintenance of appropriate financial controls and good management development policies. If necessary, CDC will play a part in finding new or additional operating management for such companies.

CDC does not plan to invest in every field of activity since to do so would risk scattering its resources too thinly and losing effective control of the underlying assets. However, new activities will be added from time to time and vehicle companies acquired or established in those new fields. It will be primarily through these companies that CDC will play a part in developing major and profitable new projects in its chosen fields of endeavour. In this way, CDC hopes to convert the portfolio investments of Canadian investors, who alone can own CDC's voting shares, into direct or control-position investments which will play some part in increasing Canadian ownership of both domestic and international resources.

Below
Polysar Limited, home-based in Sarnia, Ontario, is one of the world's largest producers of synthetic rubbers.

Report of Directors

The Corporation's consolidated assets stood at just under $900 million at the close of its third full year of operations in 1974—an increase of $198 million or 28%. In contrast to 1973, in which the company's new investment outlays were some $289 million, the year just ended was primarily one of development of our existing holdings, and net investment outlays by the Corporation itself were only $1 million. However, our subsidiary and affiliated companies expended more than $190 million, compared to $150 million in 1973, on plant and equipment, acquisitions, and venture capital expansion.

As in the preceding year, net income considerably outpaced the growth of assets, more than tripling to $59.0 million from $18.7 million. The rate of return earned on average common shareholders' equity outstanding during the year thus moved closer to our long-term target rate of 15%, being 12.9% compared to 6.3% in the preceding year. The improvement in the rate of return earned was due primarily to significantly higher earnings from the companies in our portfolio, but about one-third of the increase stemmed from the fact that we owned our Texasgulf holding for the full year compared to under three months in 1973. Offsetting these positive factors was a modest decline in earnings from short-term investments (net of interest costs) and some increase in other operating expenses, which were nevertheless contained to about 1½% of total assets.

Net income per weighted average common share outstanding during the year more than doubled to $1.89 from $0.88 on the smaller number of shares in the previous year. While earnings per share are six times those of two years ago, future gains cannot be expected to be as dramatic, or uninterrupted, as the Corporation grows in size and encounters periods of less buoyant economic activity. More will be said later about the crucial role of profit in the growth of the Corporation, and indeed of the economy generally.

The Corporation's subsidiary and affiliated companies, including the affiliates of our venture capital enterprises, now

employ over 10,000 Canadians from coast to coast, as well as 3,000 in the United States, and about 4,000 elsewhere. They contribute to future economic expansion not only through the investment outlays mentioned earlier but through research expenditures in Canada exceeding $10 million devoted to the discovery of new products and the improvement of existing ones, through exploration for new minerals and resources running to many millions of dollars annually, and through the investment of time, money, and resources in developing the skills of their technical, professional and managerial personnel.

The most significant contribution to our improved earnings for 1974 came from Texasgulf whose sales and earnings were the highest in that company's history for the second consecutive year. All operating divisions achieved improved results with chemicals showing the greatest increase. This accomplishment is the result of the very large investment made in exploration, development, and plant expansion in recent years, a process which will continue in 1975 with a capital expenditure programme of about $300 million. One of Texasgulf's major new investments will be a $300-million mine expansion and copper smelter and refinery at Timmins, Ontario which will be completed in 1978.

Polysar also had record sales and earnings in 1974 despite shortages which plagued the petrochemical and plastics industry in the early part of the year and some weakening in the demand for its products towards the end of the period; results were also adversely affected by losses and write-offs as a consequence of the decision to withdraw from the modular housing field. Total capital expenditures in 1974 amounted to $71 million, including $51 million on the $430-million Petrosar project, the construction of which began in the latter part of 1974. This world-scale naphtha cracker at Sarnia will be completed in phases from the end of 1976 to the spring of 1977. CDC played a significant role in making this project possible by agreeing to invest an additional $25 million in Polysar, referred to in last year's report, and by standing behind a portion of the latter's guarantee of Petrosar's borrowings, which were obtained entirely from Canadian institutions.

Our health care group, with the exception of the Omnimedic group in Quebec whose results suffered from the effects of a prolonged strike, made significant further operating progress in 1974, but this was more than offset by higher financing costs including foreign exchange loss provisions. Sales of Connaught Laboratories Limited increased to $15.6 million from $13.8 million the previous year. That company recorded a modest profit despite continued growth in outlays for quality control and research, which totalled $4.4 million compared to $3.9 million a year earlier, and which are designed to ensure that it remains in a position of world leadership in terms of quality and new product development. Dumex sales increased to $48 million from $40.6 million and operating results showed a further improvement, while the research activities of Raylo were significantly expanded.

CDC's three associated venture capital companies made five new investments in the year just ended in fields as diverse as process control, word-processing equipment and research growth chambers, while their existing holdings invested a further $9 million in acquisitions and expansion. Although it is too early in the life cycle of our venture capital companies for them to be significant contributors to earnings, their aggregate profits increased in 1974 as companies in which they have invested in recent years improved their earning power.

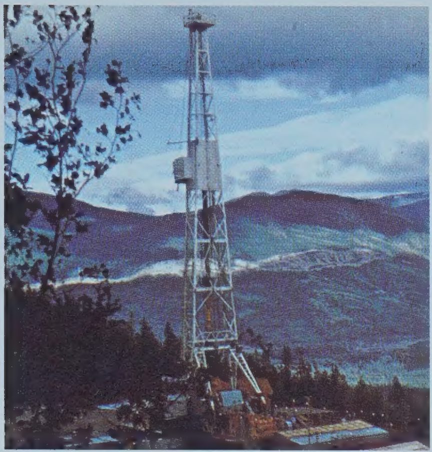
Financial Resources

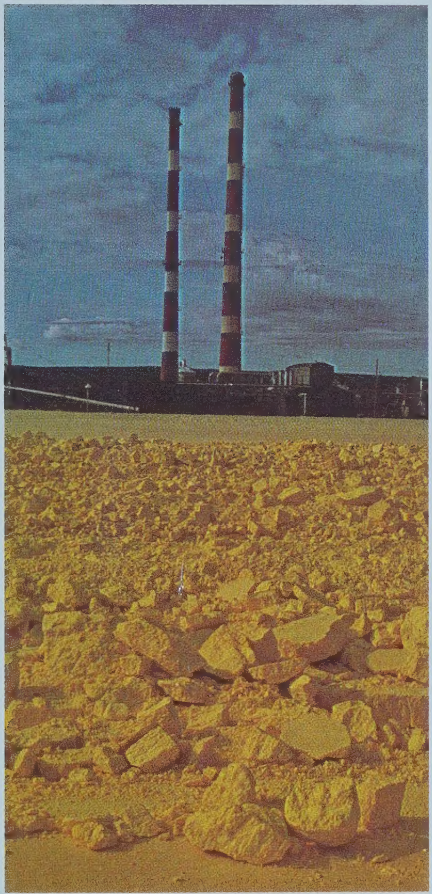
The Corporation's capital base increased by $150 million in 1974 with the issue in March of $100 million of 5¾% non-voting Class A preferred shares to a group of private buyers, and the issue in April for $50 million of 4,089,980 common shares to the Government of Canada. The latter issue completed the $250 million cash subscription authorized by CDC's incorporating legislation, although a further $10 million of common shares will be issued to the Government under the terms of CDC's acquisition of Polysar in 1972.

The cash proceeds of these share issues were used to pay off short-term indebtedness amounting to $115 million at the end of 1973, and the balance was added to the Corporation's liquid assets. The Corporation itself was free of debt at the end of 1974; its net current assets stood at $42 million and its shareholders' equity amounted to over $548 million, a gain of $204 million during the year. Retained earnings increased by $54 million, as all earnings on the common shares were reinvested in the growth of the Corporation.

CDC thus entered 1975 in a very good position to acquire interests in attractive new holdings or projects and to make additional investments in its existing holdings to promote their more rapid development. While it is the Board's policy not to undertake large borrowings in relation to CDC's capital base, the Corporation's strong balance sheet and earnings record will enable it to incur reasonable amounts of debt—possibly in some instances from sources outside Canada—to continue to expand the Corporation's earning assets in 1975.

The Board decided not to proceed with the public offering of CDC shares in 1974 in view of the difficult and uncertain condition of financial markets. A substantial amount of work preparatory to an issue





Above top
Texasgulf is continuing geological studies and drilling at the Robb Lake lead-zinc prospect, approximately 175 miles northwest of Fort St. John, British Columbia.

Above bottom
Sulphur, the workhorse of the chemical industry, is recovered by Texasgulf from sour natural gas at three Alberta locations, Okotoks, Whitecourt, and Burnt Timber.

Opposite
Hermes Electronics Limited, Dartmouth, Nova Scotia, a subsidiary of Venturetek International, has developed high frequency aperiodic loop antenna systems which receive long and short-range communications via the ionosphere.

has been done, however, and an extensive survey of the public carried out during the middle of last year's bear market confirmed our judgement that there is a very wide interest on the part of Canadians in participating in the equity securities of CDC.

In order to give Canadians the opportunity to share in CDC's growth, as well as to enlarge the Corporation's capital base, it is still the intention to proceed with a public issue at the earliest practical date. Such an issue will also be a step towards the long-term objective of CDC's legislation that up to 90% of its voting shares be held ultimately by Canadian individuals and institutions. As noted in last year's report, it will be the Board's policy to make the issue easily available to all Canadians through the widest possible distribution network.

The Role of Profits

We have deliberately stressed the earnings achievements of CDC in this report since adequate profits, far from being a matter of shamefaced embarrassment, are crucial to the success of the Corporation. Indeed, the future of the whole private sector of the Canadian economy—which we are specifically directed by our legislation to help develop and maintain under strong Canadian control and management—is dependent upon its ability to earn an adequate return on investment.

The rising standard of living which all Canadians seek can only come from the growth of the nation's output of real goods and services. This growth in real output must in turn be based upon massive amounts of new investment which will enable both labour and management to increase their productivity and efficiency. This new investment will have to be financed from the savings of millions of individuals—either directly through the capital markets and institutions or indirectly through the willingness of savers to leave a large percentage of their share of earnings in business firms to be reinvested, rather than removing them in the form of dividends. If these new investments are not made because returns offered to investors are not attractive enough to compensate them for the risks and hazards of a constantly changing and uncertain future, the inevitable result—as the experience of other countries has shown—will be inadequate capacity and obsolete plant which will lead to future shortages, accelerated price inflation and deterioration in everyone's real living standards.

Profits in Canada have in recent years averaged about 5% of sales and 11% of shareholders' equity. This is hardly an excessive amount in view of the risks involved and the fact that inflation has considerably reduced the real returns offered to savers. When prices generally are rising, some of the "profit" left after taxes must be set aside to provide for the higher costs of replacing capital and inventories which have been consumed in the business, and is not available for real expansion.

Capital in Canada—particularly Canadian-owned capital—is a scarce commodity and is likely to become scarcer in view of the many large, capital-intensive projects that are needed to modernize our industry and expand its ability to produce the goods and services wanted by Canadians. Capital resources, whether of the CDC or any other enterprise—public or private—must therefore be concentrated where they will achieve the best results.

Earning adequate profits and building stronger Canadian-controlled enterprises are not conflicting goals. To dissipate our resources in unprofitable companies rather than investing them in strong and growing enterprises would mean fewer rather than more assets under Canadian control in the future, smaller amounts of investor funds at our disposal, less employment and fewer interesting jobs, and missed opportunities to provide growing real wealth and income for our citizens.

Directors, Officers and Staff

We regret that Mme Livia Thür tendered her resignation as a director at the end of 1974 as a consequence of her joining the Federal Ministry of Science and Technology in a senior management capacity. Mme Thür's contribution to the Corporation's early years was most valuable and we shall miss her keen analysis, excellent judgement and constructive criticism.

Our two ex-officio Directors, Mr. James F. Grandy and Mr. S. Simon Reisman—Deputy Ministers respectively of the Federal Departments of Industry, Trade and Commerce and of Finance—also resigned as a result of their retirement from these positions on March 31, 1975. Mr. Reisman was subsequently elected a Director in his own right which will enable the Corporation to retain his services—now as a voting member of the Board. We take this opportunity to welcome his successor, Mr. Thomas K. Shoyama, as an ex-officio Director, and to thank Mr. Grandy—a truly outstanding, knowledgeable and dedicated public servant—for his many and extremely useful contributions to our progress during his tenure on CDC's Board.

Mr. Peter K. Powell joined the Corporation as a Vice President in 1974 and Mr. Nigel G. D. Gray became our Associate General Counsel early in 1975. They, and all the other officers and staff of CDC, have worked with enthusiasm, imagination and loyalty to accomplish the Corporation's goals, and the progress of CDC to date is a more fitting testimony than any words could be to the quality of their efforts.

Top
Modern designs in acrylic furniture produced by Polysar subsidiaries reflect popular trends in interior decor for home and office.

Bottom
Laboratoire Octo Ltée, Laval, the manufacturing arm of Omnimedic in Quebec, continually monitors quality control to maintain the necessary high standards for pharmaceutical products.

Outlook

While 1975 is expected to be a more difficult year than 1974 for the economy generally, it also represents a year of opportunity for the Corporation. The expected short-run decline in Canadian corporate profits should help CDC in making selected acquisitions at more realistic prices than those offered in 1974 when the impact of a cyclical peak in profits was reinforced by inflationary influences. There should also be opportunities to participate on a favourable basis in attractive new projects of a long-term nature as the demand for funds for this type of project is almost certain to continue to outrun the supply.

Easing of the pressure on real resources and production costs should also create a somewhat more favourable climate for spending on major projects by our subsidiary and affiliated companies. Their full development potential can only be realized by investing growing amounts in physical plant, research and new products. Vigorous economic growth is likely to be resumed once the current period of short-term weakness comes to an end. Without continuing investment now, the capacity will not be in place to meet future demands and to improve productivity and living standards. Such a situation would guarantee the continuance of inflation, shortages, declining efficiency and social unrest which is today all too evident in the world around us.

Reflecting their confidence in the longer-run future, our group of companies plan record capital outlays in 1975. The Corporation itself will continue to study new industry acquisitions and projects—both in the resource field and in certain sectors of secondary manufacturing—with a view to making significant direct investment outlays in the coming year. If circumstances in the financial markets permit, a public share offering will be made and the CDC's capital base further enlarged.

The future of CDC, like that of other Canadian institutions and individuals, depends upon current inflationary cost and price increases being reduced to more reasonable levels; none can prosper in the long-run if the internal value of our currency should continue to fall sharply and its external value become uncompetitive. However, if inflationary pressures are controlled, our consolidated earnings from existing holdings should hold up relatively well in 1975 with the exception of Polysar, whose earnings are expected to decline because of temporary over-capacity in the petrochemical sector. Strength in Texasgulf's chemical and fertilizer and oil and gas divisions should more than offset weaknesses in metal revenues, and significant gains should be recorded in our health care and venture capital companies.

Respectfully submitted on behalf of the Board,

A. John Ellis,
Chairman of the Board

H. Anthony Hampson,
President and Chief Executive Officer
April 3, 1975.

Consolidated Financial Statements

Year ended December 31, 1974

Canada Development Corporation
and subsidiary companies

Summary of Significant Accounting Policies

This summary of the significant accounting policies of Canada Development Corporation and subsidiary companies is presented to assist the reader of the financial statements contained in this report.

Principles of Consolidation

These consolidated financial statements incorporate the financial position, operating results and changes in financial position of the Corporation and its subsidiary companies.

Foreign Exchange

Consolidation of non-Canadian current assets and liabilities has been made at rates of exchange on December 31; all other assets, applicable depreciation and non-current liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expense, except depreciation, at rates in effect during the year. Gains or losses resulting from such translation practices are reflected in the consolidated statement of income.

Real Estate Investments

The land included in these assets is valued at cost including related carrying charges while the apartment buildings, townhouses, modular housing units and manufacturing facilities are stated at estimated net realizable value.

Long-Term Investments in Shares

The Corporation and its subsidiaries use the equity method of accounting for investments in companies over which they have effective control or significant influence. Under this method, the Corporation's share of the earnings of these companies is included in income currently rather than when realized through dividends. Other investments, which are not material in total, are accounted for by the cost method.

Depreciation

Depreciation of buildings and equipment is based on the estimated useful life of the assets, calculated on the straight-line or diminishing balance method as considered most appropriate for each company.

Research

Research expenditures are charged against operations as incurred, net of government grants related thereto.

Deferred Charges, Patents and Technology

Preproduction expenses incurred in connection with major new production facilities of Polysar are amortized on the straight-line basis over a period generally not exceeding five years from commencement of production. However, preproduction expenses being incurred by Polysar's subsidiary, Petrosar Limited, are expected to be amortized over a ten-year period after production commences. Other deferred charges are charged against income in the periods to which they are applicable. Patents and technology are amortized on the straight-line method over their economic useful life, generally not in excess of five years.

Goodwill

The policy of the Corporation and its subsidiaries is to record goodwill arising on acquisitions to the end of 1973 as an asset without amortization. If it subsequently becomes apparent that the value expected to be obtained has not been realized, or if the value of the goodwill is reduced or deteriorates, it will be appropriately amortized or written off against income. Goodwill arising on acquisitions subsequent to 1973 is being amortized over the expected period of benefit not to exceed forty years.

Income Taxes

Income taxes include withholding taxes on dividends received.

For the purpose of computing taxable income, legislation in Canada and certain other countries permits the deduction of certain items in amounts which differ from those charged in the financial statements. Income taxes in the consolidated statement of income include taxes deferred as a result of these timing differences as well as taxes currently payable.

The Corporation and its subsidiaries do not give recognition to the potential tax benefit of losses until realized. On a consolidated basis, these recurring tax benefits are not considered to be extraordinary in nature and are reflected as reductions of current income taxes. Substantial tax offsets are available for future years.

Consolidated Balance Sheet

December 31, 1974

Canada Development Corporation
(Established by the Canada Development Corporation Act)
and subsidiary companies

Assets

	1974	1973
Current Assets	*(thousands of dollars)*	
Cash	**$ 2,995**	$ 7,519
Short-term investments, at cost which approximates market value	**62,832**	26,734
Accounts receivable	**111,366**	102,933
Inventories (note 1)	**118,807**	59,187
Prepaid expenses	**4,591**	2,074
Real estate investments (note 2)	**21,220**	
	321,811	198,447
Investments		
Texasgulf Inc. (note 7)	**307,873**	276,469
Other companies	**21,919**	19,781
	329,792	296,250
Fixed Assets		
Land, building and equipment, at cost	**444,474**	378,431
Less accumulated depreciation	**228,203**	209,168
	216,271	169,263
Other Assets		
Goodwill	**18,658**	18,531
Deferred charges, patents and technology	**6,022**	7,889
Investment in real estate		6,052
Other, at cost	**7,037**	5,062
	31,717	37,534
	$899,591	$701,494

Approved on behalf of the Board

H. A. HAMPSON, *Director*

F.W. SELLERS, *Director*

Liabilities

	1974	1973
Current Liabilities	*(thousands of dollars)*	
Bank indebtedness	**$ 54,696**	$106,783
Short-term promissory notes	**42,788**	47,749
Accounts payable and accrued liabilities	**74,752**	52,729
Dividend payable	**1,437**	
Income and other taxes payable	**3,575**	5,008
Long-term debt of subsidiary companies due within one year	**15,672**	9,766
	192,920	222,035
Long-Term Debt of Subsidiary Companies (note 3)	**137,439**	122,803
Deferred Income Taxes	**9,744**	7,166
Interest of Minority Shareholders in Subsidiary Companies	**11,172**	5,060
	351,275	357,064

Shareholders' Equity

	1974	1973
Capital Stock (note 4)	**422,000**	262,000
Retained Earnings	**74,744**	20,858
Excess of Book Value Over Cost at Date of Acquisition of Subsidiary Company (note 5)	**51,572**	61,572
	548,316	344,430
	$899,591	$701,494

Auditors' Report

To the Shareholders of
Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation and subsidiary companies as at December 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change, with which we concur, in the method of valuation of certain inventories as referred to in note 1 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants
Vancouver, Canada
March 20, 1975

Consolidated Statements of Income, Retained Earnings and Changes in Financial Position

Year ended December 31, 1974

Canada Development Corporation
and subsidiary companies

Consolidated Statement of Income

	1974	1973
Revenue	*(thousands of dollars)*	
Sales of products and services	**$455,664**	$285,029
Other income	**10,641**	11,700
	466,305	296,729
Expenses		
Cost of sales	**346,963**	226,139
Selling, administration and research	**69,209**	40,909
Interest on long-term debt	**10,994**	4,835
Other interest	**8,180**	5,441
	435,346	277,324
	30,959	19,405
Equity in earnings of Texasgulf Inc. (note 7)	**40,381**	6,805
Equity in earnings of other companies (note 8)	**1,178**	584
Income before income taxes and other items	**72,518**	26,794
Income taxes	**8,472**	6,601
Minority interest in subsidiary companies	**175**	30
	8,647	6,631
Income before extraordinary item (note 6)	**63,871**	20,163
Extraordinary item (note 9)	**4,900**	1,435
Net income for the year	**$ 58,971**	$ 18,728
Earnings per share (note 10)		
Income before extraordinary item	**$2.06**	$.95
Extraordinary item (note 9)	**(.17)**	(.07)
Net income for the year	**$1.89**	$.88

Consolidated Statement of Retained Earnings

	1974	1973
	(thousands of dollars)	
Retained earnings at beginning of year	**$ 20,858**	$ 2,130
Net income for the year	**58,971**	18,728
	79,829	20,858
Dividend on preferred shares	**4,750**	
Expenses of preferred share issue	**335**	
	5,085	
Retained earnings at end of year	**$ 74,744**	$ 20,858

Consolidated Statement of Changes in Financial Position

	1974	1973
Working capital derived from	*(thousands of dollars)*	
Operations		
Income before extraordinary item	**$ 63,871**	$ 20,163
Items not involving current funds		
Depreciation and amortization	**23,929**	18,538
Increase in equity in Texasgulf	**(31,404)**	(5,058)
Increase in equity in other companies	**(1,019)**	(302)
Deferred income taxes	**2,578**	1,536
Other	**(160)**	310
	57,795	35,187
Increase in minority interest	**5,937**	
Issue of preferred shares	**100,000**	
Issue of common shares	**50,000**	125,000
Proceeds from long-term debt of subsidiary companies	**29,202**	67,672
Redemption of shares of subsidiary company		3,500
Reclassification of real estate investments	**6,537**	
	249,471	231,359
Working capital applied to		
Increase in investment in other companies	**1,119**	5,867
Additions to fixed assets	**74,268**	30,814
Additions to other assets	**2,289**	6,403
Reduction in long-term debt of subsidiary companies	**14,566**	7,965
Investment in real estate		6,052
Dividend on preferred shares	**4,750**	
Investment in subsidiary companies net of working capital acquired		33,405
Investment in Texasgulf		271,411
	96,992	361,917
Increase (decrease) in working capital	**152,479**	(130,558)
Working capital (deficiency) at beginning of year	**(23,588)**	106,970
Working capital (deficiency) at end of year	**$128,891**	$(23,588)

Notes to Consolidated Financial Statements

Year ended December 31, 1974

Canada Development Corporation
and subsidiary companies

1. Inventories

	1974	1973
	(thousands of dollars)	
Finished goods	$ 63,789	$ 28,930
Raw materials and work in process	40,479	21,693
Operating and maintenance supplies	14,539	8,564
	$118,807	$ 59,187

Inventories are valued at the lower of cost and net realizable value. In 1974 certain subsidiaries of Polysar changed their method of calculating cost from the first-in-first-out (FIFO) method to the last-in-first-out (LIFO) method. Had the FIFO method been used in the current year by these subsidiaries, inventories would have been $3.5 million higher than reported at December 31, 1974. This change resulted in the reduction of the 1974 net income by approximately $2.7 million. The retroactive effects of the application of the LIFO method to operations of 1973 are not determinable.

2. Real Estate Investments

Real estate investments consist of all the assets of the building systems division of Polysar net of related mortgages of $4.1 million at December 31, 1974. In 1974 Polysar decided that this division should be phased out and as the disposal of its net assets is currently being actively pursued, they have been classified as a current asset at December 31, 1974.

3. Long-term Debt of Subsidiary Companies

Polysar Limited	1974	1973
Debentures	*(thousands of dollars)*	
In Canadian dollars		
Serial debentures Series A bearing interest at 7.5% repaid on November 1, 1974		$ 1,000
Sinking fund debentures Series A bearing interest at 7.5% maturing November 1, 1987	$13,000	13,000
Sinking fund debentures Series B bearing interest at 9% maturing November 15, 1993	35,000	35,000
Loans repayable		
In French francs (Fr. 16,500,000) during the years 1975 to 1980 bearing interest at rates varying from 7.25% to 9.25%	3,409	5,199
In Belgian francs (Fr. 150,000,000) during the years 1975 to 1977 bearing interest at 6.5% and secured by a mortgage on certain land and buildings	3,535	4,450
In Belgian francs (Fr. 405,000,000) under lease arrangements during the years 1975 to 1992 bearing interest at 7.88% and 9.86%	10,735	12,524
In Swiss francs (Fr. 25,000,000) during the years 1975 and 1976 bearing interest at a variable rate with a minimum of 6.785%	8,009	6,244
In German marks (DM 56,411,000) during the years 1975 to 2004 bearing interest at rates varying from 2.5% to 12.5%	20,959	21,494
In United States dollars (U.S. $10,033,000) under lease arrangements during the years 1975 to 1985 bearing interest at 9.75%	10,229	10,701
In United States dollars (U.S. $5,335,000) during the years 1975 to 1989 bearing interest at rates varying from 5% to 15%, a portion of which is secured by mortgages on certain fixed assets	5,383	5,479
In United States dollars (U.S. $23,100,000) during the years 1979 to 1988 bearing interest at rates varying from 120% to 122½% of the average prime rate of specified New York banks until 1985 and thereafter at rates to be agreed upon. Of this loan, $12,558,000 (55%) is guaranteed by minority shareholders	22,832	
In Canadian dollars during the years 1979 to 1988 bearing interest at .75% above the Canadian prime rate until 1985 and thereafter at rates to be agreed upon. Of this loan $2,887,000 (55%) is guaranteed by minority shareholders	5,250	
Other	3,264	6,386
	141,605	121,477

3. Long-term Debt of Subsidiary Companies (continued)

Connlab Holdings Limited

Loans repayable		
In Canadian dollars during the years 1975 to 1978 bearing interest at ½% above prime lending rate established by the lender, a Canadian bank	**2,800**	3,500
In Swiss francs (Fr. 18,124,007) during the years 1977 to 1983 bearing interest at ½% above the London Interbank Eurodollar market rate, but fixed at 10¾% until April 1975	**6,198**	5,735
Other	**2,508**	1,857
	11,506	11,092
	153,111	132,569
Less portion of long-term debt due within one year included in current liabilities	**15,672**	9,766
	$137,439	$122,803

In the event that exchange rates at December 31, 1974 were to prevail throughout the repayment term, the long-term debt would increase by approximately $4 million.

Sinking fund requirements and the portion of long-term debt due in each of the next five years are as follows: 1975–$15.7 million; 1976–$13.1 million; 1977–$23.3 million; 1978–$7.8 million; 1979–$28.1 million.

4. Capital Stock

(a) Authorized

Preferred,

$1,000,000,000 divided into shares with a par value in any multiple of $5 not exceeding $1,000 each

Common,

200,000,000 shares without par value

	1974	1973
	(thousands of dollars)	
Issued		
Preferred		
10,000,000 5¾% cumulative, redeemable, non-voting Class A shares of $10 each	**$100,000**	
Common		
29,756,989 shares (1973–25,677,009 shares)	**312,000**	$262,000
To be issued		
945,001 common shares	**10,000**	
	$422,000	$262,000

The Class A preferred shares are redeemable on or after March 5, 1979 at the option of either the Corporation or any holder thereof at par value plus all accrued and unpaid dividends.

(b) Issued during the year

Preferred shares

In March, 1974, the Corporation issued 10,000,000 Class A preferred shares for cash of $100 million.

Common shares

In April, 1974, the Corporation issued 4,089,980 common shares to the Government of Canada for cash of $50 million.

(c) To be issued

Polysar was acquired from the Government of Canada through an exchange of shares on July 31, 1972 at an initial cost of $62 million. Pursuant to the purchase agreement and based upon the profitability of certain operations of Polysar in 1973 and 1974 a further and final amount of $10 million became payable. The Government has elected to receive 945,001 common shares of the Corporation in settlement of this amount and these shares will be issued in April, 1975.

Notes to Consolidated Financial Statements
(continued)

5. Excess of Book Value Over Cost at Date of Acquisition of Subsidiary Company

The total cost of the Polysar acquisition amounting to $72 million has been accounted for as a purchase in the following manner:

	(thousands of dollars)
Assets acquired	
Current	$106,417
Fixed	107,067
Other long term	15,122
	228,606
Less liabilities assumed	105,034
Net assets acquired	123,572
Less excess of book value over cost at date of acquisition ("negative goodwill")	51,572
	$ 72,000

The Corporation does not consider it appropriate to apply negative goodwill against the book value of Polysar's fixed assets since this approach would cause a material understatement of fixed asset values. Accordingly, the Corporation has recorded fixed assets at their estimated fair values as shown above, and depreciation is based on these values rather than on the substantially lower values that would have resulted if the negative goodwill had been applied against Polysar's fixed assets. The resultant unrealized increment has been carried to a separate account within shareholders' equity ("Excess of Book Value Over Cost at Date of Acquisition of Subsidiary Company"). Dependent upon such factors as sale of the assets or increases in their earning power, this amount will be transferred directly to retained earnings.

6. Consolidated Income Before Extraordinary Item

The contribution to consolidated income of the Corporation and its subsidiaries is as follows:

	1974				1973			
	Months in consoli-dation	Sales	Other income	Income (loss) before extra-ordinary item	Months in consoli-dation	Sales	Other income	Income before extra-ordinary item
		(thousands of dollars)				*(thousands of dollars)*		
Polysar	12	$388,256	$ 3,597	$22,726	12	$257,126	$ 4,032	$12,018
Connlab								
Connaught Laboratories					12			
A/S Dumex					3			
Omnimedic	12	67,408	2,229	(50)	11	27,903	1,593	41
Raylo Chemicals					12			
Canada Development Corporation	12		4,815	(364)	12		6,075	715
Equity in earnings of Texasgulf (note 7 (b))	12			40,381	3			6,805
Equity in earnings of other companies	12			1,178	various			584
		$455,664	$10,641	$63,871		$285,029	$11,700	$20,163

Other income includes interest on short-term investments of $6,279 in 1974 and $6,300 in 1973.

7. Equity in Earnings of Texasgulf Inc.

(a) The Corporation through a wholly-owned subsidiary, owns 30.3% of the outstanding common shares of Texasgulf. These shares were purchased in 1973 as a long-term investment which the Corporation has no present intention of selling, and has agreed not to sell as a block other than to a subsidiary before December 6, 1975. The quoted market value of the Texasgulf shares at December 31, 1974 was $236 million which, because of the number of shares owned, is not necessarily indicative of the amount which would be realized if the shares were to be sold.

(b) With respect to the comparative figures for 1973, it was not practical to carry out an audit examination of the interim earnings of Texasgulf from the dates of acquisition of the shares to December 31. Therefore, the "Equity in earnings of Texasgulf Inc." in the 1973 consolidated statement of income was based on unaudited information.

The excess of cost of the investment in Texasgulf over the Corporation's equity in the net book value of the underlying assets of Texasgulf at the dates of acquisition of the shares amounted to $143 million. The Corporation does not consider as a practical matter that there is any reason to expect the value of its investment to decline with time. However, based on generally accepted accounting principles, this excess has been allocated to resource assets, which are diverse both in nature and in estimated length of economic life, and the excess is being amortized on a straight-line basis over a period of 40 years.

"Equity in earnings of Texasgulf Inc." included in the Corporation's consolidated statement of income has therefore been computed as follows:

	1974	1973
	(thousands of dollars)	
Share of net income of Texasgulf	**$43,955**	$7,686
Less amortization of excess of cost of investment over equity in net book value of underlying assets of Texasgulf at dates of acquisition of shares	**3,574**	881
Equity in earnings of Texasgulf	**$40,381**	$6,805

(c) Net income of Texasgulf for the year ended December 31, 1974 amounted to U.S. $147,442,000. A note to the audited financial statements of Texasgulf for the year ended December 31, 1974 reads in part as follows:

"The Internal Revenue Service has examined the company's tax returns for the years 1958 through 1965. A revenue agent's report previously received for the period 1966 through 1968 is now in the process of being amended by the Service. Concurrently, the returns filed for the years 1969 through 1971 are being examined. The Service has challenged or is proposing adjustments to the company's treatment of several items in the tax returns filed for the years 1958 through 1971. Should the Service prevail income reported to shareholders for the years 1974 and 1973 would be reduced by approximately $9,050,000 and $4,600,000 respectively and prior years' income would be reduced approximately $16,600,000 after applicable reductions of deferred income taxes provided in prior years; deferred income tax credits of $3,400,000 would be provided which would be amortized to income in future years; payments of U.S. Federal income taxes and interest in the amount of $42,650,000 would be required and the amount of recoverable U.S. Federal income tax would be reduced by $2,550,000. Numerous issues have been raised, the most significant of which pertains to the company's treatment of a tax paid to Ontario on income from the Kidd Creek mine. The company has claimed this tax as a credit against U.S. Federal income taxes. The Service asserts this tax should be a deduction in arriving at U.S. taxable income. The company intends to contest all major issues and expects to prevail".

8. Equity in Earnings of Other Companies

The excess of cost of investments in other companies accounted for by the equity method over the Corporation's equity in the net book value of the underlying assets amounts to approximately $4 million, all of which has been attributed to goodwill.

9. Extraordinary Item

The extraordinary item represents a write-down of the manufacturing facilities of Polysar's building systems division to estimated net realizable value and a provision for costs attendant upon the disposal of the assets of this division.

Notes to Consolidated Financial Statements
(continued)

10. Earnings Per Share

Earnings per share have been computed on income (after deduction of the dividend on preferred shares) divided by the weighted average of common shares of the Corporation outstanding during the year. If the common shares to be issued subsequent to December 31, 1974 (note 4(c)) had been outstanding throughout 1974, the pro forma earnings per share would have been $1.99 before the extraordinary item and $1.82 on net income for the year.

11. Commitments

(a) Polysar is an incorporating shareholder of Petrosar, a company established to build and operate a world-scale crude oil topping and naphtha-cracking complex near Sarnia, Ontario. The project is scheduled for completion in 1977 and its estimated cost, including financing during construction, start-up and working capital requirements, will approximate $430 million. Petrosar has arranged with a consortium of Canadian banks for a term loan of $265 million, $28 million of which was drawn in 1974 and is included in the schedule of "Long-term debt of subsidiary companies" (note 3), and a demand operating loan of $35 million. These loans are 55% guaranteed by minority shareholders. Quarterly repayments on the term loan are expected to commence no later than June 1, 1979. While these bank loans are outstanding, dividends may not be declared by Petrosar until specified conditions have been met.

Polysar has subscribed for 60% of the capital stock of Petrosar, for an aggregate of $30 million, of which $8.1 million was paid in 1974. The balance, together with $11.4 million of subordinated debentures of Petrosar is expected to be purchased progressively during the construction period to maintain an agreed upon ratio of bank loans to subordinated debt and shareholders' equity.

The shareholders of Petrosar have undertaken to make additional funds available to that company to the extent of the excess of the cost of its facilities over the aggregate of their investment in Petrosar, the bank loans and any other funds available to Petrosar to complete construction of the complex.

The Corporation has guaranteed to the banks certain of Polysar's obligations under the term loan arranged by Petrosar principally regarding the completion of the project. The amount of such guarantee may vary but is limited to a maximum of $75 million. In addition, the Corporation has agreed to purchase further shares or subordinated debentures of Polysar in the aggregate amount of $25 million to assist Polysar in making its equity investment in Petrosar.

(b) At December 31, 1974 other subsidiaries were committed to spend approximately $20 million for the acquisition of capital assets.

12. Contingencies

Polysar is or may become a defendant with others in several legal actions claiming an aggregate of $6 million in respect of product liability. The claims are being defended by, or have been referred to, the company's product liability insurers. It is the opinion of Polysar's management that these claims will not be sustained.

13. Subsequent Event

On March 19, 1975, Polysar entered into an agreement to sell 2,000,000 8.40% cumulative redeemable first preferred shares for an aggregate consideration of $50 million before underwriting commission and expenses of issue.

14. Depreciation and Amortization

The 1974 consolidated statement of income, before equity in earnings of long-term investments, includes charges for depreciation of $21,875,000 and for amortization of $2,054,000 (1973–$17,266,000 and $1,272,000 respectively).

15. Remuneration of Directors and Officers

	1974	1973
Number of directors	**21**	21
Number of officers	**7**	7
Number of officers who are also directors	**3**	3
Aggregate remuneration of directors as directors of the Corporation	**$ 79,950**	$ 62,450
Aggregate remuneration of directors as directors of subsidiary companies	**4,400**	7,633
Aggregate remuneration of officers as officers of the Corporation	**310,640**	303,890

Officers of the Corporation received no remuneration from subsidiary companies.

16. Consolidated Subsidiary Companies

CDC Nederland B.V.

Connlab Holdings Limited
Analco Inc.
Canada Pharmacal Co. Limited
The Canada Serum Company Limited
Connaught Biologics Limited
Connaught Laboratories Limited
Connlab do Brasil Industria e Comercio Limitada
OY Dumex AB, Helsinki
Dumex Australia (Pty.) Ltd., Melbourne
Dumex B.V. Haag
A/S Dumex (Dumex Ltd.), Copenhagen
Dumex GmbH, Hamburg
Dumex Lakemedel AB, Halsingborg
Dumex Ltd., Accra
A/S Dumex, Oslo
Dumex (Pty.) Ltd., Durban
Dumex SPA, Milan
Franca Laboratories Inc.
Nordic Pharmaceuticals Ltd.
Octo Laboratory Limited
Omnimedic Inc.
R. & L. Molecular Research Ltd.
Raylo Chemicals Limited
Spabec Ltée

Polysar Limited
Bellaplast GmbH
Bellaplast Nederland B.V.
Com-Share A.G.
Com-Share B.V.
Com-Share International B.V.
Com-Share Limited
Com-Share Limited (U.K.)
Com-Share S.A. (Belgium)
Computer Sharing A.G.
Computer Sharing of Canada Limited
General Plastics Company Limited
Genplac Limited
Kayson-Mammoth Limited
Komfortplast GmbH
M.K.W. Corporation
Mammoth Plastics Inc.
Nippon Polymers Company Limited
Petrosar Limited
Polcrete Properties Incorporated
Polymer Corporation Canada Limited
Polysar Australia Pty. Ltd.
Polysar Belgium N.V.
Polysar Communications Inc.
Polysar de Venezuela S.A.
Polysar Deutschland GmbH
Polysar do Brasil Produtos Quimicos Ltda.
Polysar Europa S.A.
Polysar France S.A.
Polysar GmbH
Polysar Handelmaatschappij B.V.
Polysar Incorporated
Polysar International S.A.
Polysar Italiana S.P.A.
Polysar Ltd., Grand Cayman Island
Polysar Nederland B.V.
Polysar Plastics Inc.
Polysar Plastics Limited
Polysar Rubber Services Inc.
Polysar Skandinaviska A.B.
Polysar Technical Service Centre N.V.
Polysar (U.K.) Limited
Polysar United States Incorporated
Société de Latex S.A.
Société Française Polysar
Solar Chemical Corporation
Synthetic Elastomers Development S.A.
Trent Rubber Services Limited

Petrochemicals

Polysar Limited

Polysar Limited is the largest Canadian-controlled and managed firm in the petrochemicals industry. Its principal products are synthetic rubbers, plastics and latices. Chemicals will soon emerge as a fourth significant product line. Polysar's main manufacturing activities are at Sarnia, Ontario; with other plants at Cookshire, Quebec; Cambridge and Linsday, Ontario; and in Belgium, France, West Germany and the United States. Products are sold throughout the world from offices in 17 countries with the North American and European markets being of approximately equal importance.

Financial

Record results were achieved in 1974. Net income of $18.1 million, after providing for an extraordinary loss of $4.9 million, was 64% higher than the $11 million earned in 1973. Revenues of $394 million were 51% over the $261 million recorded in 1973.

Approximately $71 million was invested in new plant, equipment and property during 1974. Polysar plans to invest over $100 million in each of 1975 and 1976 to expand and improve further its production facilities. In addition, research and development expenditures will exceed the $4.9 million spent in 1974.

Unusual and pronounced changes in market demand characterized 1974. All products were in short supply during the first half. In recent months, the general economic slowdown experienced in all major markets has affected particularly the automotive and construction industries, both important consumers of rubber and latex products. As a result, operating levels were curtailed which, because of high fixed costs and break-even points, led to financial losses during the last quarter of 1974 and first quarter of 1975.

As the present recession in the world economy eases and excessive inventories are reduced, the longer-term strength of demand for petrochemical products is expected to become apparent again. Shortages are expected to recur, particularly since plant capacity has been slow to expand and important projects have been delayed in several countries. Canada is in a comparatively favourable position to take advantage of the bright long-term future of world petrochemicals. Accordingly, Polysar is planning for rapid growth.

Rubber

Synthetic rubber product sales of $217 million accounted for about 7% of the western world market. Polysar supplies some 30% of the international requirement for butyl rubber, a synthetic rubber used principally for inner tubes and tire linings. During the past several years, the company has successfully concentrated on increasing its penetration of certain specialty markets for synthetic rubber where profit margins exceed those in the tire rubber market.

Top opposite

Products of General Plastics Company Limited of Cookshire, Quebec, a subsidiary of Polysar, are examples of the varieties of houseware, food service items, and specialty packaging manufactured for the expanding Canadian market.

Below and opposite

Plants at Antwerp, Belgium, and Strasbourg, France, support the global activities of Polysar as one of the largest suppliers of butyl rubber and high and medium solid latices.

Plastics

Plastics sales at $89 million continued their strong rate of increase. Excluding acquisitions, plastics sales volumes have increased by some 30% during each of the past three years, compared with the general industry average increase of 12%. The company's plastic products include polystyrene resins, a broad range of packaging products, and moulded components for the furniture industry. Current efforts are focused on developing new and improved products to meet food packaging needs.

Latex

Latex products are sold primarily to the carpet, upholstery and paper coating industries. Polysar is the world's largest producer of high-solids SBR latices and has approximately one-third of the North American and European markets for carpet foam rubber latex. Sales of latex products in 1974 were $66 million and have been increasing by about 40% annually during the past three years. Increases in latex manufacturing capacity are planned, although a slower rate of sales growth is anticipated in future.

Chemicals

A new Chemicals Division was created in 1974 with responsibility for the utilization of olefins, aromatics and their derivatives in support of Polysar's activities in polymerization and polymer fabrication. The Division is responsible for Polysar's participation in Petrosar Limited and is studying the feasibility of a new world-scale styrene plant in Sarnia, estimated to cost $90 million.

Petrosar Limited, after more than two years of study and planning, started construction in July 1974 of a world-scale crude oil topping and naphtha-cracking complex, near Sarnia. The present estimated cost of the complex is $430 million, including financing during construction, start-up and working capital requirements. Polysar owns 60% and Du Pont of Canada Limited and Union Carbide Canada Limited each owns 20% of the outstanding shares of Petrosar.

The Petrosar complex will supply needed petrochemicals in the Sarnia area and fuel products in the eastern Canadian market. The plant is designed to process 170,000 barrels per day of crude oil to produce 1 billion pounds per year of ethylene, 2 billion pounds per year of other primary petrochemicals such as benzene, propylene, isobutylene and butadiene and over 125,000 barrels per day of fuel products such as fuel oil, residual oil, liquid petroleum gas, synthetic natural gas and gasoline. The Petrosar project represents a major advance and affords new opportunities for growth in the petrochemical industry in Canada.

Other Business

Com-Share Limited, Polysar's subsidiary in the computer time-sharing field, reached a break-even point during 1974. Sales were more than double 1973 levels aided by strong growth in the U.K. and the start of operations in the Netherlands and Belgium. In Canada, coast-to-coast service will become available in 1975 with a tie-in to the European network.

Late in 1974, Polysar decided to phase out its activity in factory production of concrete modular units for housing. The decision was taken, after a thorough investigation of alternatives, for reasons which included the difficulty and high cost of acquiring suitable lands, the sharp downturn in the housing market, and more attractive alternative uses for funds in the company's petrochemical business.

Financial Review

	1974	1973
	(millions of dollars)	
Total Revenue	$393.9	$261.4
Net Income	18.1	11.1
Working Capital	75.8	77.3
Fixed Assets (Net)	184.1	138.3
Long-Term Debt	111.7	112.7
Total Assets	444.7	341.5

Mining and Natural Resources

Below top
Texasgulf Canada is constructing a copper smelter and refinery adjacent to the Kidd Creek Mine and concentrator near Timmins, Ontario.

Below bottom
Potash ore at the Allan Potash Mines near Saskatoon, Saskatchewan, in which Texasgulf has a 40% interest, is removed by continuous miners.

Opposite
Techniques adapted from open pit mining are now being used deep underground at Kidd Creek where blast holes are rotary-drilled for stoping.

Texasgulf Inc.

Texasgulf Inc. is a major mining and natural resource development firm with worldwide activities. Metals operations are centred in Canada; agricultural chemicals are produced in the United States, Canada and Mexico; oil and gas are produced in Canada and the United States; and iron ore is produced in Australia.

Financial

Sales and earnings reached record levels in 1974 for the second consecutive year. Sales totalled $568.5 million compared to $363.8 million in 1973, an increase of 56%. Net income was $147.4 million or $4.84 per share, compared to $73.9 million or $2.43 per share for 1973, due in part to the company's large investment in new plant and equipment in recent years, including $103 million in 1974. The company's Metals and Chemicals Divisions were the principal contributors to the higher 1974 sales and earnings, with Chemicals showing the greater percentage increase.

Metals

Metals and concentrates sales in 1974 were $298 million compared to $215 million in 1973. At the Kidd Creek Mine in Timmins, Ontario about 2.7 million tons of ore were mined from the open pit and 968,000 tons from underground in 1974. Production of copper concentrates increased while the output of zinc, lead and silver continued at 1973 levels.

Planning for expansion of the Kidd Creek operations was carried forward in 1974 and in March of this year a decision was made to proceed. Mine expansion will increase annual ore production from 3.7 million tons per year to about 5 million tons. A fourth circuit will be added to the concentrator to permit processing of the increased ore production. These additions, costing $100 million, should be complete in 1978.

Increased upgrading of resource products is planned at Kidd Creek. A $200 million copper smelter and refinery, with a

capacity of 130,000 tons of refined copper per year, is planned for completion in 1978. Plans to construct a phosphate fertilizer complex at Timmins are under study. Test work is also underway on other facilities which would use by-product gypsum to produce cement for use as backfill at the Kidd Creek mine.

Elsewhere in Canada, a lead-zinc property on Baffin Island, which Texasgulf discovered and in which it retains an interest, is expected to be the first mine in North America north of the Arctic Circle with production planned in 1976. Another potential mine is at Half-Mile Lake near Newcastle, New Brunswick, where Texasgulf has about 6 million tons of zinc-lead ore reserves, with some copper. In northeast British Columbia, Texasgulf has a 40% interest in a joint lead-zinc venture near Robb Lake where drilling is continuing. A major metals exploration programme continues in the Northwest Territories.

Chemicals

Texasgulf is now a major producer of phosphate, potash and sulphur, three of the four basic fertilizer materials, and plans to become self-sufficient in the fourth, nitrogen, through a joint venture with Beker Industries. Texasgulf has a 10.7% interest in Beker Industries. Sales of agricultural and chemical products were $260 million in 1974 compared with $143 million in 1973.

At Lee Creek, North Carolina, Texasgulf is building, by stages, the world's largest phosphate fertilizer complex to a capacity of more than the equivalent of one million tons a year of 100% P_2O_5. Production capacity was increased by 50% with the completion of the third 170,000-ton per year unit in 1974 and a fourth unit, bringing the total to 680,000 tons per year, will be completed later in 1975. A new soda ash plant is under construction in Wyoming and a new Frasch sulphur mine is being developed in West Texas. Production at the 34%-owned Texistepec sulphur mine in Mexico more than doubled to 768,900 long tons in 1974 and shipments of recovered sulphur from Alberta increased moderately as world prices improved sufficiently to justify the increased costs of transportation. Potash production increased at both the Cane Creek Mine in Utah and at the 40%-owned Allan Potash Mines in Saskatchewan.

Oil and Gas

The Oil and Gas Division produced revenues of $9 million in 1974 compared to $5 million in 1973. Exploration programmes were expanded and new acreage acquired in the United States, Canada and overseas. Texasgulf now participates in 25.2 million gross acres of exploratory lands in Pakistan, Thailand, the Malagasy Republic, Senegal and Nicaragua.

In Canada, Texasgulf has completed some 40 new producing wells in Alberta's Provost Field where a water-flood programme to increase oil production is under consideration. Texasgulf's research project to determine if heavy crude in the area of North Battleford, Saskatchewan, can be produced under controlled conditions using steam injection yielded encouraging results. The project will be expanded if technical difficulties can be overcome and government policies are favourable. Commercial production of these heavy oils would require an investment of many millions of dollars.

Other

Texasgulf has extensive holdings of lands which a new Farm Division is seeking to utilize more effectively for crops and livestock, as well as for pulpwood and timber.

The Robe River iron ore mine and processing complex in Western Australia, in which Texasgulf has a 10.5% interest, operated beyond design capacity in 1974. Feasibility studies and preliminary discussions on sales contracts continue regarding the Marandoo iron ore deposit, also in Western Australia. Texasgulf has a 50% interest in Marandoo.

Continued heavy emphasis is placed on exploration activities. In addition to the traditional areas of Canada, the United States and Mexico, minerals exploration programmes are underway in Australia, Egypt, Ireland, Panama, the Philippines, Africa and Spain.

Business Environment

Texasgulf has benefitted from the shortages and accompanying high prices for its natural resource products which have prevailed during the past two years. Metals demand and prices weakened in the latter part of 1974 and this weakness has carried over into 1975. Demand for fertilizer products continued to outstrip supply during 1974 and, while some easing may occur, fertilizer markets are expected to remain tight. To meet the world's ever-growing requirement for resource products, Texasgulf is planning major investments and expanded production facilities over the next five years.

Financial Review

	1974	1973
	(millions of dollars)	
Total Revenue*	$583.8	$369.0
Net Income	147.4	73.9
Working Capital	185.0	114.2
Fixed Assets (Net)	525.2	463.0
Long-Term Debt	133.3	156.0
Total Assets	976.9	776.0

* *net of outside smelting and refining charges.*

Health Care

Top
Coating of tablets, one of the many stages of manufacturing at Laboratoire Octo, readies the product for packaging and distribution.

Bottom
Seventy percent of Connlab group research spending is directed toward the discovery of new products for the prevention, detection, or treatment of infectious diseases.

Connlab Holdings Limited

CDC's wholly-owned subsidiary, Connlab Holdings Limited, completed its first full year of operations in 1974. Connlab's objective is to create an internationally competitive Canadian presence in the research, manufacture and sale of biologicals, pharmaceuticals, medical equipment, hospital supplies and other products related to health care. 1974 sales of the companies in the group totalled over $67 million compared to combined 1973 sales of $50 million.

The Connlab group's overall modest loss position reflects start-up expenses, a continued high level of expenditures on research and development and losses on foreign exchange. Research expenditures by the group exceeded $5 million reflecting basic research in immunochemistry and the synthesis of new antibiotics as well as the costs incurred in readying new products for market.

Connaught Laboratories Limited

Sales of biological products by Connaught in 1974 were $15.6 million, an increase of 12% over 1973 and some 35% over the level when the company was acquired from the University of Toronto.

During the year, significant progress was made in a number of areas. Clinical trials started on a new test kit for the detection of hepatitis and continued on new measles and rubella vaccines and a new poliomyelitis vaccine, the latter produced without the use of monkey kidneys, which are subject to worldwide scarcity. Connaught's BCG, long used for the prevention of tuberculosis, and now showing promise in the treatment of cancer, has been chosen by the National Cancer Institute as the product for national field trials underway in the United States.

To provide needed strengthening in its marketing activities, a Connaught veterinary sales force was started during the year to provide coverage of and technical service for major veterinary customers in Canada. In the field of diagnostic reagents

and media, a sales and marketing organization was started to sell the many products in this field that Connaught has long produced for its internal needs. One such unique product used in the production of Connaught vaccines appears to have significant potential in the U.S. market.

In Brazil, long an important export market, Connaught joined with the State of São Paulo to form Brasvacin, planned to be a major producer of vaccines in that country. Connaught will provide know-how and technical support for this venture. It also purchased a minority interest in Alfa Laboratories, a new producer of veterinary vaccines and pharmaceuticals in the agriculturally important northeast part of Brazil. ERA rabies vaccine, a major Connaught product, will be one of the most significant products of this new company.

Within Connaught, a new cost and management information system was installed, improvements in plant and equipment were continued, and planning started for a major expansion of production facilities needed for the significant flow of new products projected for the next several years.

A/S Dumex

Dumex continued its strong performance in 1974, showing a growth in sales and operating profit of 30% and 21% respectively over 1973. During the year the company acquired additional production facilities in Denmark for its rapidly growing line of animal feed products. It established a separate biological sales group to handle Connaught products in its areas of marketing strength and formed a company in the Netherlands for its first major thrust into that country. Dumex also entered into the Mexican market with the joint venture purchase of a small pharmaceutical company.

Raylo Chemicals Limited

Raylo continued its long-term basic research in the discovery and synthesis of new antibiotics. This programme, supported in part by the Canadian Government, is directed toward broadening the pharmaceutical lines of members of the Connlab group with important new products.

Omnimedic Inc.

1974 was a year of consolidation and reorganization for Omnimedic. The sales forces of Laboratoire Octo Ltée and Laboratoires Franca Inc. were merged and a new national sales force created. Uniform packaging and labelling were developed with all products of the founding companies now being marketed under the Nordic name. Management of the two companies was integrated and all manufacturing activities transferred to the larger Octo plant. Sales of $3.5 million were level with 1973 as the company suffered a prolonged strike.

Below
Connaught Laboratories, Toronto, enjoys an outstanding national and international reputation for research and production of biological products including vaccines, insulin, toxoids, and sera for humans and animals; Connaught's superior standards of quality are maintained by dedicated, knowledgeable, and professional staff. Each stage of serum or vaccine production requires constant vigilance from preparation of tissue cultures to the final packaging.

Top left
Exploration for high-grade mineral deposits by Kapvik Explorations Ltd., financed in part by Ventures West Capital, has taken geologists far above the Arctic Circle to the northern tip of Ellesmere Island.

Top right
Word processing equipment designed and manufactured by AES Data Inc. of Montreal, a subsidiary of Innocan Investments, combines computer power, video display and high speed printing to automate office typing.

Bottom
Continuous product testing and improvements of underwater acoustic devices are conducted by Hermes Electronics Limited staff in Dartmouth, N.S.

Venture Capital

The CDC is associated with the largest pool of venture capital in Canada as the biggest shareholder in three leading venture capital companies, Venturetek International Limited of Toronto, Ventures West Capital Ltd. of Vancouver, and Innocan Investments Ltd. of Montreal.

The objective of all three companies is to provide capital to business ventures in the conceptual or early development stage which have substantial potential for earnings growth over the longer term. Each company is managed by its own autonomous management group, having an equity interest in its respective company. Boards of Directors of each represent the financial institutions and private investors with whom CDC is a partner. Our experience to date has confirmed that this structure makes available to each venture capital company a broader depth of business experience and a stronger financial base than would be the case had the CDC entered the venture capital business on its own.

Venturetek International Limited

Founded in 1969, Venturetek has investments in five companies employing over 2,500 people in Canada, the United States and the United Kingdom. The CDC made its initial investment in Venturetek during August 1972 and, at December 31, 1974, held a 30.6% interest which cost $4.6 million.

Venturetek takes majority positions in emerging marketing-oriented companies with a unique product or service. Major holdings include:

- Conat Industries Limited, a company involved in the development of blue-flame oil combustion systems and the manufacture and sale of domestic and commercial environment control systems.
- Gestalt International Limited, a company which has developed and patented a unique mapping instrument to produce orthophotographs automatically, a service which it markets worldwide through

Top
The Husky, recognized as the world's largest off-road tracked vehicle capable of transporting 40-ton payloads through very difficult terrain, is produced by Foremost International Industries of Calgary, Alberta, of which Ventures West Capital is a shareholder.

Bottom
Research growth chambers, designed and manufactured by Controlled Environments of Winnipeg, a Ventures West Capital investment, provide precise control of temperature, light and humidity.

service centres and two subsidiaries in the aerial surveying and geophysical exploration business.

- Hermes Electronics Limited, the largest manufacturer of ocean engineering products in Canada.
- PoP Shoppes International Inc., an operator and licensor of one-stop factory stores retailing soft drinks in case lots directly to consumers. At the end of 1974, 29 PoP Shoppes were in operation, supported by 300 satellite depots.
- Ventek Computer Systems Limited, a group of companies which develop, market, and install small-scale data processing systems.

Venturetek's preliminary consolidated financial statements for the year ended December 31, 1974 showed total assets of $41.4 million, working capital of $3.5 million, shareholders' equity of $11.2 million, and net profit of $1.5 million for 1974.

Ventures West Capital Ltd.

From its base in Vancouver, Ventures West makes venture capital investments in the western provinces and the Territories. The CDC invested $2.2 million of the initial capital subscription of $4.2 million and holds 49% of the voting stock.

Ventures West takes minority and majority positions, often in conjunction with other investors. The company has so far invested approximately $900 thousand in natural resource exploration and about $500 thousand in export-oriented industries of an innovative kind.

In the natural resource exploration area Ventures West has invested with others in five separate exploration ventures seeking natural gas in British Columbia, Alberta, the Arctic Islands and the North Sea; lead-zinc in the Arctic Islands and in the Yukon; and copper, also in the Yukon.

In manufacturing, Ventures West has an interest in Foremost International Industries Ltd., a Calgary producer of large off-highway vehicles suitable for Arctic, muskeg and desert use. Foremost, whose vehicles are exported to a wide variety of countries including the Soviet Union, had sales in 1974 of $8.8 million. Ventures West has also invested in Controlled Environments Ltd. of Winnipeg. This company, known in the industry as Conviron, produces research growth chambers in which the environment is controlled as to temperature, light and humidity. Conviron, also a world leader in its technology, expects to export 75% of its 1975 sales volume, with one-third going to the United States and the balance to a wide range of other destinations.

In its 1974 fiscal year, Ventures West reported a break-even position, and at year-end $2.7 million was available for new venture capital investments.

Innocan Investments Ltd.

Innocan Investments Ltd. commenced operations in May 1973 with initial capital of $9.2 million. The CDC acquired a 40% interest for $3.7 million.

Innocan makes equity investments in new or existing companies with exceptional growth opportunities, preferably where a strong management group has a new product or technology with potential international demand.

Since inception, Innocan has expanded rapidly and by the end of 1974 had invested or committed to invest, $4.7 million in ten companies. Major holdings include:

- AES Data Ltd., a company which developed and markets the AES-90 word processor and a line of teleprotection equipment for the power utility industry.
- Cybermedix Limited, a significant medical support company with 45 laboratories offering testing and health screening programs in Ontario and Quebec.
- Innotech Aviation Limited (formerly Atlantic Aviation Limited), a Montreal-based company which is the largest and most diversified general aviation sales, maintenance and support organization in Canada.
- International Systcoms Ltd., a company which manufactures portable and automobile radio telephone units and narrow range two-way mobile radios.
- Laurentian Concentrates Limited, a Quebec manufacturer of protein-based and aqueous film foams used to extinguish oil-based fires.
- Sentrol Systems Ltd., a company which was incorporated to carry on the business of Electronic Associates of Canada Limited. The company designs and manufactures electronic sensing and control equipment primarily for the pulp and paper industry.

Some of Innocan's affiliated companies are at an early stage of development or reorganization and a small consolidated loss was therefore incurred in 1974. At the end of the year Innocan had $4.3 million available for new investments.

(10)

8

Pipelines

Below
Test stations of the Arctic Gas Study Group located at Norman Wells and Sans Sault, Northwest Territories, and at Prudhoe Bay, Alaska, have been researching the environmental effect that natural gas pipelines will have on the northern region.

As a participant in the Gas Arctic-Northwest Project Study Group, the CDC had paid $2.6 million to the end of 1974 as its share of the expenses of the Arctic Gas consortium which has undertaken research, engineering and planning for the construction of a single pipeline system to deliver in excess of 4 billion feet of gas a day from Alaska and the Mackenzie Delta to markets in Canada and the United States. Cumulative expenses through 1974, which members of the consortium share on an equal basis, were $68 million.

After allowing for price escalation, a capital expenditure of $6.2 billion is the currently estimated requirement for completion of the basic pipeline facilities within Canada with a further $800 million for the Alaskan portion of the line. It is anticipated that expansion of the capacity of the line would be largely financed from funds generated from operations. Majority Canadian ownership would require, on present estimates, a total equity investment of $700 million.

Approval of regulatory bodies in Canada and the U.S. is required for the Arctic Gas project which would be operated as a contract carrier to transport gas, at a regulated rate of return, for shippers contracting for such service. In Canada, approval is required under the National Energy Board Act and by the Department of Indian Affairs and Northern Development for the use of federal lands. In the U.S., approvals are required from the Federal Power Commission and from the Department of the Interior for the Alaskan portion of the line.

Applications for two competing projects have also been filed. El Paso Company of Houston, Texas, is proposing an all-American alternative to ship gas across Alaska by pipeline and then in liquefied form by ocean tanker to the U.S. West Coast. In Canada, Foothills Pipelines Ltd., of Calgary, owned by The Alberta Gas Trunk Line Company Limited and Westcoast Transmission Company Limited, is putting forward an alternative proposal based on the shipment of gas from the Delta with or without the intake of gas from Alaska.

In a step to accelerate regulatory proceedings, the FPC in the U.S. called for consolidated hearings on the Arctic Gas and El Paso projects to begin on May 5, 1975. In Canada, hearings began on March 3rd on the social, economic and environmental impact of the Arctic Gas project in Northern Canada. These hearings are being held by Mr. Justice Thomas Berger of the Supreme Court of British Columbia, who will submit his findings to the Federal Minister of Indian Affairs and Northern Development. The NEB will hold hearings later in the year on the Arctic Gas and Foothills applications. Arctic Gas had filed by January 1975 information with the NEB on routing, engineering, financing, tariffs, gas supply, economic impact, and environmental and socio-economic aspects of its project. Information on gas sales and contracts remains to be filed. Foothills intends to file supporting data by May 1975 for its application with the NEB.

It is hoped that the outcome of the regulatory processes in both countries will have been determined by the spring of 1976.

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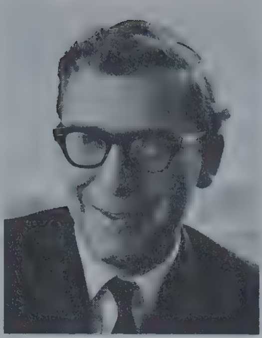

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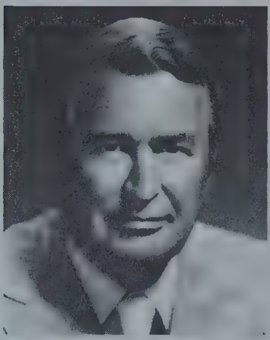

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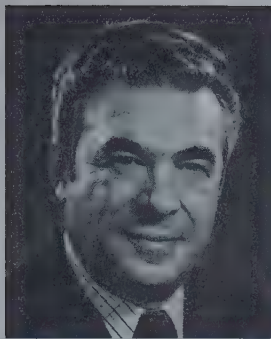

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Reisman and Grandy
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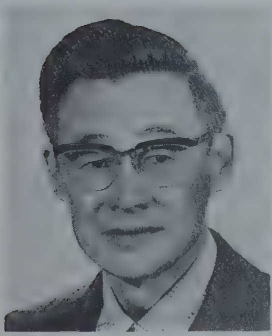

T. K. Shoyama*
ex officio
Deputy Minister of Finance
Ottawa, Ontario
(From April 1, 1975)

J. F. Grandy
ex officio
Deputy Minister of Industry,
Trade and Commerce
Ottawa, Ontario
(Until March 31, 1975)

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FILE

PRESS RELEASE

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CDC EXPANDS FROM WITHIN

"The Canada Development Corporation had a successful year in 1974". Anthony Hampson, President and Chief Executive Officer of the Corporation stated when he released the year's results as a preview of the 1974 Annual Report. The CDC's net income for 1974, its third full year of operations, more than tripled from the previous year to $58.9 million from $18.7 million. Net income per common share more than doubled to $1.89 from $0.88 on the smaller number of shares outstanding in 1973.

Total assets grew by 28% to just under $900 million, an increase of $198 million over 1973. Mr. Hampson pointed out that the growth came primarily from the CDC's existing holdings rather than from new acquisitions. CDC subsidiaries and associate companies spent over $190 million on plant, equipment, acquisitions and venture capital expansion.

Over 10,000 Canadians are now employed from coast to coast by Corporation subsidiaries and affiliated companies. In addition, research and development expenditures in Canada exceeding $10 million, exploration for new minerals and resources running to many millions of dollars, and investment in developing the skills of the group's technical, professional and managerial personnel all will contribute to significant future economic expansion.

The Corporation was established in late 1971 to help develop and maintain strong Canadian-controlled and managed corporations in the private sector of the economy and to widen the investment opportunities open to Canadians. Its legislation contemplates that up to 90% of its voting shares should ultimately be held by Canadian citizens and residents.

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